Citizens Advice Parliamentary Briefing

Welfare Reform and Work Bill 2015/16

House of Lords, Second Reading, 17 November 2015

Introduction

This briefing explains the likely impact of some of the welfare benefits measures in the Bill and provides some key questions.

The briefing considers the following clauses:

- **Clauses 7 and 8:** Benefit Cap
- **Clauses 9 and 10:** Freeze of certain social security benefits and tax credits for four tax years
- **Clauses 11 and 12**: Removal of entitlement to the child element in Child Tax Credits and Universal Credit for the third and subsequent children born after April 2017
- **Clauses 13 and 14**: Employment and Support Allowance: work-related activity component and Universal Credit: limited capability for work element
- **Clause 16:** Loans for mortgage interest

Overview

The Government must ensure it fully understands the impact of welfare cuts on households and must ensure that the implementation of reform is safe and steady.

Some, but by no means all, benefit claimants can respond to cuts by increasing their earnings from work. Without the necessary support, some will experience increased hardship and anxiety. This will also place a greater burden on public services and could end up costing taxpayers more.

Citizens Advice welcomes the Government's commitment to protect the vulnerable as reforms are made to the welfare system, and we are keen to share our data and insights to ensure that reform moves people forward in life..

We question the effectiveness of spending cuts without broader reform.

- Citizens Advice helps people with two million problems relating to the tax credit and benefit system each year - it is the top issue for which people come to us for advice.
- Cuts to welfare - including freezing benefits for four years, lowering income disregards and work allowances, and cutting tax credits - will all have a very serious impact on many people's ability to meet day to day costs, especially for those unable to increase working hours (for example, because of caring responsibilities or local labour market conditions).
- The human impact of cuts also risks translating into increased pressure on other public services.
- For this reason, we want the Government to understand the impact of the welfare benefit measures in the Bill as clearly as possible; to make sure that those affected have the advice, tools and support they need to move forward; and to ensure that implementation proceeds at a safe pace.
- In the long run, the only way to sustainably reduce welfare spending is to relieve wider pressures in the housing, labour and childcare markets.
- Citizens Advice also wants to see a modernised welfare system which is more responsive to people's needs, with better digital service design and an intelligent front line with greater local discretion.

Clauses 7 and 8: Benefit cap

While the current rate mainly affects larger households in high rent areas, the reduction to the benefit cap set out in Clause 7 will see smaller families being capped all over the country. Given the cap's limitations as a tool for moving large numbers into work, it is likely to result in many affected households cutting back on essentials such as food and heating, or falling into debt.

Key questions:

- What analysis has the Government done to understand how local authorities will respond to the lower cap, especially in high rent areas where a larger proportion of families will be affected, and to ensure appropriate resources available are available to support these families?
- What advice and support will be put in place to help those affected?

Proposed amendments:

Several clauses limit the scope for consultation around changes to the benefit cap. However, if changes are made without a full assessment of the circumstances and options for those affected, this increases the risk that the cap will only serve to increase hardship and may well place increased spending pressure on other local services.

We therefore suggest amendments to remove Clause 7(10) and amend Clause 8(1) to remove s96A(8) and to consider the addition of a positive requirement for the Secretary of State to consult with other representative bodies, particularly regarding the impact of the proposed cap.

Our impact assessment:

This clause would reduce the level of the household benefit cap to £20,000 per year for a family (or £23,000 per year in Greater London). Citizens Advice has helped nearly 4,000 clients with issues relating to the current benefit cap, set at £26,000, since its introduction in April 2013. There has been a small positive labour market effect as a result of the current cap. After one year, those affected are 4.7 percentage points more likely to be in work with a Working Tax Credit claim than their counterparts claiming out-of-work benefits at a level just below the cap.[1]

However there are significant limitations to the benefit cap as a means of moving large numbers of households into work. The cap has the effect of extending the reach of the conditionality system to those usually not expected to work, such as lone parents of very young children. It also raises real challenges for parents struggling to find affordable childcare, those who have caring responsibilities for

[1] *Benefit Cap: Analysis of outcomes of capped claimants*, DWP, December 2014. A Working Tax Credit claim may be opened in a lone parent family if the parent is in work for 16 hours or more or in a couple is the parents are working 24 hours between them, with one working at least 16.

elderly relatives and those affected by poor health. These households are much more likely to attempt to cut back on essentials such as food or heating, and many will fall into debt.[2]

Citizens Advice client statistics suggest the benefit cap disproportionately affects women, ethnic minorities and children; over 400,000 children are likely to be affected by the reduced cap. The biggest impacts will fall on the c. 22,000 families who have been unable to escape the existing cap and who are now set to lose up to another £6,000 per year (or 23% of their income before housing costs) in addition to previous reductions.

While the current rate mainly affects larger households in high rent areas, the reduction will see smaller families being capped all over the country, and even very small families in high-rent areas. Families who need four bedrooms to be adequately housed will find that their housing benefit will no longer cover the cost of private sector rent in any part of the country.[3]

A lower cap makes it vital that sufficient and proportionate Discretionary Housing Payment funds are made available to local authorities. This will allow households the time they need to take action or adapt to their reduced income. We would suggest that local authorities should look to learn from best practice in the use of Discretionary Housing Payments and support for households who are affected.

Our fuller pre-Budget analysis on lowering the cap is available here.

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[2] *Post-implementation effects of the Benefit Cap* (Wave 2 survey), DWP, 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/386198/rr894-post-implementation-effects-of-benefit-cap-wave-2.pdf. This research found that found that the most common response to the cap was spending less on households essentials (35% of households affected). Families with three or more dependents, lone parent households and those those who have a self-defined limiting health problem or disability were more likely than the cohort overall to have spent less on essentials.

[3] Rent at the 30th percentile of market rates in each local area (which is the basis of local housing allowance rates set by the Department for Work and Pensions for housing benefit).

Clauses 9 and 10: Freeze of certain social security benefits and tax credits for four tax years

The freeze on benefits and tax credits extends a similar policy to uprate benefits below the rate of inflation, which began in early 2013. This has decreased financial security for millions of low-income households; an ongoing freeze is likely to exacerbate the pressures they are facing. This cumulative impact must be taken into account and those affected should be offered appropriate advice and support.

Key questions:

- What assessment has the Government made of the cumulative impact of an extended freeze in benefit rates on lower income families?
- What advice and support will be put in place to help those affected?

Proposed amendment:

Given the nature of a freeze, the impact of the policy is likely to be cumulative, rather than evident immediately. **We therefore suggest the addition of a requirement for government to review the freeze on an annual basis, assessing statistical data on the impact of the freeze against wider trends in prices and earnings .**

Impact assessment:

Benefits have been uprated below inflation since the start of 2013. This has placed significant financial pressure on millions of low income households. We are already seeing the results; over the last four years, there has been a sharp increase in Citizens Advice clients seeking advice on debt. The composition of debt is also changing, with a shift away from consumer credit issues towards problems in meeting basic household bills.

The freeze would therefore take effect at a point when many households are already financially vulnerable. Of clients coming to Citizens Advice regarding benefits and tax credits included in the freeze, 74 per cent had an income of less than £1,000 per month - around the average salary for someone working full time on the minimum wage. A survey of 200 advisers in local Citizens Advice found that two-thirds believed their clients were in a worse position to cope with the impacts of a freeze, in comparison to 2012.

The freeze will also affect people with limited options to increase their earnings from work. Of Citizens Advice clients claiming the affected benefits and tax credits, nearly half have a health condition or disability and over 40 per cent have dependent children. The complete freeze of the coming four years will compound many of these existing pressures.

With inflation projected to rise over the next four years, the risks of an ongoing freeze should be considered against the savings intended; growth in problem debt at household level entails very significant costs, both for those affected and the Exchequer. Reduced means for already vulnerable households can also increase demands on other public services. Up-front advice and support for those affected will be vital if sustainable savings are to be realised.

Our fuller pre-Budget analysis of the impact of a two year freeze is available here.

Clauses 11 and 12: Removal of entitlement to the child element in Child Tax Credits and Universal Credit for the third and subsequent children born after April 2017

These changes are intended to sit alongside the freezing of tax credits and changes in secondary legislation to income disregards, work allowances and

taper rates, which have already been debated in Parliament. Together, these reforms shrink family budgets and will reduce the financial benefits of work for millions of families. In the future the losses may be offset by changes to the personal allowance in income tax and the new national living wage, but this will not be the case for everyone affected. We support the Chancellor's intention to revisit this package of reforms in his Autumn Statement.

Key questions:

- Will these measures be subject to review at the Autumn Statement?
- What are the prescribed exceptions referred to in subsection four and how will they be administered? Will there also be prescribed exceptions to this change under Universal Credit?
- How will this legislation affect the additional support that parents with childcare costs receive through Working Tax Credit and Universal Credit childcare elements?

Impact assessment:

Tax credits and Universal Credit top up income for low income families and help to make work pay, including through support for childcare costs. In the last 12 months Citizens Advice has helped people with over 180,000 tax credit issues and over 8,000 Universal Credit issues. These clauses would remove entitlement to the child element of tax credits and Universal Credit for the third and subsequent children born after April 2017.

Families with three or more children and families with a disabled member (including disabled children) are more likely to be in relative low income[4], so this change will increase income poverty. Not all of the families affected will be in a position to gain from a higher personal allowance or national living wage in the future.

[4] Households Below Average Income: an analysis of the income distribution 1993/94 to 2013/14, DWP, June 2015

Clauses 13 and 14: Employment and Support Allowance; work-related activity component and Universal Credit; limited capability for work element

Changes to payment rates for the work-related activity component under Employment and Support Allowance amount to a reduction of £120 per month for those assessed to have a work-limiting health issue or disability. This cut must be balanced by better decision-making and appropriate, sustainable support for those affected.

Key questions:

- What additional advice and support will be put in place for those who are found to have limited capability for work?
- What plans does the Government have to improve the timeliness and accuracy of decision-making on Employment and Support Allowance?

Proposed amendment:

The Government has suggested that the reduction in payment rates for the ESA WRAG group will be accompanied by additional employment support. This will be important; the current provision places those of limited capability for work in the same financial position as those who are fully fit, without guaranteeing them the extra help needed to overcome their greater barriers. **We therefore suggest the addition of a requirement to provide enhanced employment advice and other sources of support for those affected.**

Impact assessment:

The alignment of payment rates for those claiming Employment and Support Allowance undertaking work-related activity and those claiming Jobseeker's

Allowance places greater importance on getting decisions on work capability right at the earliest possible opportunity.

Citizens Advice has previously highlighted concerns with the decision-making process for the Work Capability Assessment and, although the numbers of appeals reaching tribunal stage has fallen since the introduction of mandatory reconsideration, over half of awards are still made in favour of the claimant.

We help clients with over 1,000 Employment and Support Allowance related issues every day, and almost 1 in 5 relate to challenging a decision made about their condition. A reduction by £120 per month for clients who have been assessed to require Employment and Support Allowance because of a work-limiting health issue or disability must be balanced by better decision-making at the earliest possible stage, and appropriate, sustainable support for those who are found to have limited capability for work.

Clause 16: Loans for mortgage interest

This clause makes the support offered on mortgage payments for homeowners claiming certain benefits repayable, and could make it harder for some on low or fixed incomes to retain their homes. Citizens Advice suggests that the Government should work closely with mortgage lenders to understand and monitor the impact of this measure.

Key questions:

- Is there a need for more advice and support for homeowners as a result of these proposals?
- Which life events or changes in circumstance will trigger repayment of the loan? And, has the Government made any assessment of the potential for creating new barriers to entering or returning to the labour market?

Impact assessment:

This clause would transfer liabilities from state to individual by making the support offered on mortgage payments for homeowners claiming certain benefits repayable. While most homes are gaining value, and most homeowners will be able to repay their loan in the medium to long-term, this measure could make it harder for some homeowners on low or fixed incomes to retain their homes.

Citizens Advice research has identified groups of homeowners vulnerable to income shocks. 15 per cent of all those helped by Citizens Advice last year were homeowners with a mortgage.

Citizens Advice suggests that the Government should work closely with mortgage lenders to understand and monitor the impact of this measure. We have now seen very low interest rates for over six years and some homeowners are still struggling to maintain or retain their homes; the likelihood of imminent interest rate rises risks making this situation worse.

Contact us

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